

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2022

Docket No. ACR2022

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-9 OF CHAIRMAN'S INFORMATION REQUEST NO. 6**

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 6, issued on January 20, 2023. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please refer to the discussion in the FY 2022 ACR on international Competitive products in which the Postal Service states, “[i]n Order No. 2825, the Commission approved Proposal Five, which established a non-In-Office Cost System (IOCS) methodology to distribute [International Money Transfer Service (IMTS)] costs to IMTS-Outbound and IMTS-Inbound based on transaction volume.”¹ The Postal Service further states, “[i]n FY 2022, there were only seven IOCS tallies, five for the IMTS-Outbound and two for the IMTS-Inbound products. As a result, IMTS costing remains subject to variation.” FY 2022 ACR at 95.
 - a. Please confirm whether the non-IOCS methodology is used in conjunction with the IOCS methodology to distribute IMTS-Inbound and Outbound costs or used as an alternative to the IOCS methodology, and explain in detail how IMTS costing has improved using the non-IOCS methodology.
 - b. Please confirm whether IMTS costing is still subject to variation using the non-IOCS methodology. If confirmed, please explain why the non-IOCS methodology still results in variations in IMTS costing.
 - c. To the extent that using the non-IOCS methodology to distribute IMTS-Inbound and Outbound costs has not made any significant impact on IMTS cost distribution, please identify other alternatives that would improve IMTS costing and explain why they could result in improvement.

RESPONSE:

- a. The Postal Service prefers to categorize the volume variable costing method used for IMTS as a hybrid method that includes an IOCS component followed by a non-IOCS component.² The direct IOCS component determines total IMTS costs and the non-IOCS component disaggregates composite IMTS costs into three categories: 1) outbound paper money orders; 2) inbound paper money orders; and Sure Money

¹ FY 2022 ACR at 95 (citing Docket No. RM2015-13, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015 (Order No. 2825)).

² However, drawing a distinction between IOCS methodology and non-IOCS methodology is not an entirely precise exercise, because the non-IOCS component applies miscellaneous activity (e.g., breaks, clock in/out, moving equipment) and customer waiting factors that are both estimated annually by IOCS measurements. Moreover, the non-IOCS component applies a piggyback factor that is also influenced by IOCS measurements.

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(outbound electronic money transfers). For reporting, the ICRA separately reports revenues, costs, and transactions for IMTS – Outbound and IMTS – Inbound, where IMTS – Outbound is the sum of outbound paper money orders and Sure Money.

The IOCS component aggregates tallies for outbound paper money orders, inbound paper money orders, and Sure Money to compute total IMTS volume variable costs.

The non-IOCS component computes the volume variable costs for IMTS-Outbound and IMTS – Inbound in four steps. One, a fully loaded window cost is applied to all Sure Money transactions to compute its volume variable costs. Fully loaded window cost includes five inputs: 1) base transaction time for Sure Money of 4.49 minutes; 2) miscellaneous activity factor; 3) waiting for customer factor; 4) window service piggyback factor; and 5) clerk wage rate. It is applied to all Sure Money transactions to compute its total volume variable costs. Two, Sure Money costs are subtracted from the total IMTS volume variable costs computed using the IOCS methodology previously described. Three, the residual volume variable costs are divided between inbound paper money orders and outbound paper money orders using their relative shares of transactions. Four, the IMTS – Outbound volume variable costs are the composite of the Sure Money and outbound paper volume variable costs.³

³ This process is documented in NP2. Steps 1-3 are shown in workbook FY22 IMTS Calculations for NP2. Step 4 is shown in workbook Reports.

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Applying the IOCS and non-IOCS hybrid method results in separate costs for outbound paper money orders, inbound paper money orders, and Sure Money. Beginning in FY 2021, financials for the three IMTS categories have been reported in USPS-FY22-NP2/Supporting Files/IMTS Data. This methodology was approved by the Commission in Docket No. RM2015-13, Proposal Five, Order No. 2825 (November 19, 2015).

In the Order that approved the hybrid methodology, the Commission preferred the IOCS method to estimate attributable costs. Order at 10. However, the Commission also recognized that “[r]equiring the Postal Service to obtain a sufficient number of IOCS tallies to distribute IMTS costs would require expanded IOCS sampling at increased costs to the Postal Service.” *Id.* at 10. Ultimately, the Commission determined that adoption of the hybrid model was a “step forward in ensuring that the Postal Service is able to separately report attributable costs for the IMTS – Outbound and Inbound products on an annual basis.” *Id.* at 10.

Furthermore, the Commission believed that the approved hybrid methodology represented “a reasonable trade-off between the increased cost of expanded IOCS sampling to more reliably estimate attributable costs and the value of annual reporting of attributable costs for the IMTS – Outbound and Inbound products.” *Id.* at 10-11.

One clear benefit of the hybrid model is it ensures that separate volume variable costs are estimated for both the separate MCS products – IMTS – Outbound and IMTS

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– Inbound.⁴ This outcome is not guaranteed by the strict IOCS methodology initially preferred by the Commission because if either IMTS – Outbound or IMTS – Inbound receive zero IOCS tallies, then the resulting volume variable costs will also be zero. Empirically, this situation occurred to IMTS-Inbound in both FY 2018 and FY 2019. In both years, the Postal Service incurred costs from offering IMTS – Inbound, but the strict IOCS methodology was unable to appropriately attribute costs to IMTS – Inbound because there were no such tallies. Alternatively, the hybrid method attributed a portion of IMTS costs to Inbound. The table below shows the number of IMTS – Outbound and IMTS – Inbound tallies by year from FY 2018-FY 2022.

International Money Transfer Service - IOCS Tallies			
	Outbound	Inbound	Total
FY 2022	5	2	7
FY 2021	3	2	5
FY 2020	1	1	2
FY 2019	2	0	2
FY 2018	4	0	4

In its Order, the Commission recognized the difficulties associated with this situation and it is reasonable for one to believe that it contributed to the approval of the current hybrid method used to attribute IMTS costs.

The use of IOCS tallies is the preferred methodology to develop reliable estimates of attributable costs for the IMTS – Outbound and Inbound products, assuming a robust number of tallies can be obtained....However, in most fiscal years, the Postal Service is unable to obtain any IOCS tallies to distribute attributable costs to the IMTS – Inbound product. *Id.* at 10.

⁴ MCS section 2620 concerns IMTS – Outbound, and MCS section 2625 concerns IMTS – Inbound.

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A secondary benefit of the hybrid methodology is it introduces stability to Sure Money costs that are a subcategory of the IMTS – Outbound product. The stability stems from applying a base transaction time of 4.49 minutes to all Sure Money transactions. Sure Money costs impact IMTS – Outbound and IMTS – Inbound product costs because those are allocated after Sure Money costs are subtracted from total IMTS costs that are measured by IOCS tallies.

The hybrid costing method also has weaknesses. One deficiency, as described earlier, is that the hybrid method relies on a static mean transaction time for Sure Money that comes from a special study of 67 observations conducted between 2008 – 2010. Thus, the hybrid method assumes that the mean transaction time for Sure Money has remained constant for more than a decade after the empirical data was collected. Furthermore, the hybrid model relies on an untested assumption that the costs for outbound paper money orders and inbound paper money orders is equal. This is because the hybrid model apportions the residual costs between outbound and inbound paper money orders on the relative shares of transaction volume. In its Order, the Commission recognized this untested assumption.

Nevertheless, the use of transaction volume to apportion costs assumes that outbound paper money orders and foreign-issued money orders cashed by the Postal Service have the same unit cost. The Postal Service provides no information in this docket to suggest that the unit costs are the same, or that they are different. *Order* at 11.

In sum, the Postal Service agrees with the Commission that the strict IOCS method is preferable in an environment where the quantity of IOCS tallies is expected to

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be robust. However, achieving a robust number of IMTS tallies is expensive and unrealistic. The Postal Service applauds and appreciates the certainty of attributing costs to both IMTS products that the hybrid model guarantees. Thus, the Postal Service firmly believes, despite the weaknesses identified, the hybrid model continues to be an improved costing method for IMTS compared to the strict IOCS method that existed prior to the approval of the hybrid method by the Commission.

b. Confirmed. The hybrid IMTS costing methodology remains subject to significant variation that primarily stems from IOCS sampling, which is subject to large sampling error due to the small product volume and associated difficulty in obtaining a robust number of IMTS tallies. The hybrid costing method uses IOCS tallies to determine total direct IMTS costs. Combining the tallies for inbound and outbound reduces the sampling error but, as the table from part a. illustrated, IMTS tallies are scarce in general. While it is beneficial to utilize the hybrid method, as a practical matter, IMTS aggregate cost estimates developed under either the strict IOCS or hybrid methods are subject to variation and wide confidence intervals.

Nonetheless, the hybrid methodology does introduce stability to the estimate of volume variable costs for Sure Money that results in a material reduction in the variation of the cost estimate for IMTS – Outbound. The primary source of the reduction stems from applying a fixed transaction time to all Sure Money transactions. However, significant variation in IMTS product costs remain because of its reliance on a less than

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robust number of IOCS tallies that historically experience large percentage changes annually.

c. As described in the response to part a. of this question, the Postal Service acknowledges and appreciates the impactful advances in costing methods that resulted from approval of the hybrid cost method from Docket No. RM2015-13. The Postal Service has not identified any alternative costing methods that could result in further improvements.

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2. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal in USPS-FY22-NP36.

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3. Please refer to Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, January 18, 2022, question 13.a., in which the Postal Service explains that the "COVID-19 pandemic reduced employee availability nationally and in numerous pockets of hot spots at different times." Please also refer to Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-21 of Chairman's Information Request No. 11, February 11, 2022, question 16.a. (Docket No. ACR2021, Response to CHIR No. 11), in which the Postal Service states that if one geographic hot spot has insufficient employee availability to clear the mail, mail destined for any number of downstream facilities will be delayed. Do the responses to these questions remain applicable in FY 2022 given the changes to the network implemented by the Postal Service in FY 2022?⁵ Please explain the reason why or why not.

RESPONSE:

The principle that if one geographic hot spot has insufficient employee availability to clear the mail, mail destined for any number of downstream facilities will be delayed remains accurate. However, the prevalence of employee availability hot spots has abated as the effects of COVID-19 have lessened. The effects of employee unavailability, however, are independent of the changes to the network. Broadly, service standard changes were implemented to help facilitate certain origin-destination pairs to be transported via surface where they were previously transported via air. Notwithstanding these changes, the network still depends on having sufficient personnel to operate, and insufficient employee availability that delays mail clearing at an

⁵ See, e.g., United States Postal Service, Delivering for America, First-Year Progress Report, April 7, 2022, at 3, available at <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-one-year-report.pdf> ("Mail standard changes were implemented October 1, 2021. These new service standards are enabling the design and implementation of a more efficient and reliable network.").

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upstream facility inevitably still leads to that mail being delayed as it progresses through the network of downstream facilities.

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4. Please refer to Docket No. ACR2021, Response to CHIR No. 11, question 16.b., in which the Postal Service states that it "is unable to quantify the impact of employee availability on service performance because it is not possible to isolate the effect on service performance independent of other factors." Please confirm that the Postal Service remains unable to quantify the impact of employee availability on service performance. If not confirmed, please explain.

RESPONSE:

Confirmed.

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5. Please refer to Docket No. ACR2021, Response to CHIR No. 11, question 14, in which the Postal Service states that it is unable to quantify the impact of critically late trips (CLTs) on Market Dominant service performance results. Please confirm that the Postal Service remains unable to quantify the impact of CLTs on service performance. If not confirmed, please explain.

RESPONSE:

Confirmed.

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6. The Postal Service states that it “uses an inventory tool called the Collection Point Management System (CPMS) to collect data on collection boxes throughout the nation.”⁶
- a. Please provide a copy of the most up-to-date CPMS in Excel format.
 - b. In Docket No. ACR2020, the Postal Service provided two Excel spreadsheets containing data on the CPMS Blue Box Collection Schedule and CPMS Density.⁷ Please file updated spreadsheets for FY 2022.
 - c. Please explain how the Postal Service uses the CMPS to determine the number of collection boxes provided in Library Reference USPS-FY22-33.⁸
 - d. Please provide the following:
 - i. The number of collection boxes located within post offices and other retail facilities, including those outside the building and in the parking lot of the retail facility
 - ii. The number of collection boxes distributed in the field outside of post offices and other retail facilities

RESPONSE:

- a. Please see the Excel file associated with this response in the zip file electronically attached to this response set. Produced by CPMS, this file contains an up-to-date list of all scheduled pickups of blue collection boxes. Note that this

⁶ Docket No. ACR2012, Library Reference USPS-FY12-33, December 28, 2012, PDF file “USPS-FY12-33.Preface.pdf.”

⁷ Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-23 of Chairman’s Information Request No. 9, February 8, 2021, question 11, folder “ChIR.9.Public.Attachments,” folder “Question 11 Collection Boxes,” Excel files “CPMS Blue Box Collection Schedule.xlsx” and “CPMS Density.xlsx.”

⁸ Library Reference USPS-FY22-33, December 29, 2022, folder “USPS-FY22-33,” folder “FY22.33.Files,” Excel file “CollectionBoxesFY2022.xlsx.” The Postal Service states there is no change in the methodology for collecting data on collection boxes. See Library Reference USPS-FY12-33, file “Library Reference USPS-FY12-33.”

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information overlaps, in large part, with the information provided in response to part b. below.

b. Please see the two Excel files associated with this response in the zip file electronically attached to this response set.

c. CPMS draws from a data repository into which collection points are entered. In determining the number of collection boxes provided in USPS-FY22-33 (as in its predecessors), the Postal Service filters the data contained in this repository for blue collection boxes.

d. i. There are 239 blue collection boxes in the lobbies of Post Offices, stations and branches. There are 37,332 blue collection boxes outside of—i.e., adjacent to or in the parking lots of—Post Offices, stations and branches. In addition, there are 626 blue collection boxes associated with contractor-operated postal units. CPMS does not keep records indicating whether blue collection boxes are in the lobbies of, or are outside and adjacent to, contractor-operated postal units.

ii. The Postal Service interprets this question to request the number of blue collection boxes that are not located inside or adjacent to retail units. There are 101,172 such boxes.

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7. In Docket No. ACR2021, the Postal Service stated that in FY 2021, it continued to follow the procedures specified by the Postal Operations Manual (POM) for conducting annual density testing of collection boxes to determine which collection boxes to remove.⁹
- a. Please provide a copy of or link to the most recent version of the POM.
 - b. Please confirm that in FY 2022, the Postal Service continued to follow the procedures specified by the POM for conducting annual density testing of collection boxes to determine which ones to remove.
 - i. If confirmed, please provide updated references to the POM and other sources describing procedures for conducting annual density testing.
 - ii. If not confirmed, please describe the procedures the Postal Service followed in FY 2022 for removing collection boxes. In the response, please provide references to the POM and other sources describing these procedures.
 - c. Please describe all factors other than density the Postal Service considers when determining whether to remove a collection box.

RESPONSE:

- a. <https://blue.usps.gov/cpim/ftp/manuals/pom/pomtc.pdf>
- b.
 - i. Confirmed. The Postal Service continues to follow the procedures specified by the Postal Operations Manual (POM) for conducting annual density testing of collection boxes. Density testing is described in POM 314.3.
 - ii. N/A
- c. As indicated by POM 315.1, the appearance and condition of collection boxes is considered. (“All collection boxes must have a uniform appearance and indicia so that customers can readily identify the type of service provided at each box. All boxes must

⁹ Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 5, January 31, 2022, question 1.a.

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be maintained in good condition with a clean and legible collection schedule decal. Boxes must be painted in accordance with and have only the decals prescribed by Brand and Policy at Headquarters. Collection boxes are to be maintained in good condition.") Per POM, 315.4, vandalism of and/or tampering with a collection box can occasion its emergency removal, if such vandalism and/or tampering supports the determination that its location is unsecure. ("If, after a collection box has been vandalized or tampered with, the location is determined to be unsecure by the Area manager, Delivery Programs Support, the box may be removed immediately without notice.")

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8. In Fall 2022, the Postal Service issued a news release warning people not to drop off mail in collection boxes on Sundays or federal holidays due to rising mail theft.¹⁰
- a. Please explain whether and how the Postal Service considers theft from a collection box when deciding whether to remove it.
 - b. Please describe to what extent collection box theft has discouraged customer usage of collection boxes in FY 2022. In the response, please describe other collection points or access channels that customers may have used in FY 2022 instead of collection boxes.
 - c. Please explain how collection box theft affected customer experience scores and overall customer satisfaction in FY 2022. In the response, please describe how customers have responded to collection box theft.

RESPONSE:

Before proceeding to the subparts below, a point of clarification is in order. The press release in question was not vetted, approved, or disseminated by the Postal Service's national headquarters, nor was it intended for nationwide distribution. Rather, a United States Postal Inspection Service office in Alabama issued the press release in response to a local uptick in collection box mail thefts and in anticipation of peak season. This helps explain why the *Philly Voice* article cited by the Commission, in linking to the Postal Service's purported press release, redirects readers to an al.com news feature.¹¹

¹⁰ See, e.g., Brian A. Saunders, *PhillyVoice* (October 29, 2022), available at <https://www.phillyvoice.com/us-postal-service-drop-boxes-targeted-theft/>.

¹¹ See Leada Gore, *Here's when you shouldn't use post office drop boxes, according to USPS*, AL.COM (Oct. 25, 2022, 9:44 PM), <https://www.al.com/news/2022/10/heres-when-you-shouldnt-use-post-office-drop-boxes-according-to-usps.html>.

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a. Per POM, 315.4, “[i]f, after a collection box has been vandalized or tampered with, the location is determined to be unsecure by the Area manager, Delivery Programs Support, the box may be removed immediately without notice.”

b. There is no mechanism to directly assess whether, or to what degree, collection box theft discouraged customers from using collection boxes in FY 2022. Please see subpart c. below for more information on this topic.

In addition to collection boxes, Postal Service customers may avail themselves of the collection points and access channels typically offered by the Postal Service, including curbside pickup, P.O. boxes, SSKs, and services provided by clerks at retail locations.

c. The Postal Service’s customer satisfaction surveys do not directly address collection box use; thus, the extent to which collection box theft affected customer satisfaction in FY 2022 is not reflected in the FY 2022 customer experience scores. The Delivery and C360 surveys (contained in USPS-FY22-38) do, however, provide comment boxes which allow customers to expound on their customer experience ratings—and, given the open-ended format that these comment boxes afford, nothing prevents customers from discussing collection box thefts. The textual analytics employed by the Postal Service to process these comments have not surfaced collection box theft as a prevalent or significant area of customer concern.

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9. In the September 8, 2022 issue of the *Postal Bulletin*, the Postal Service announced that it discontinued a number of post offices.¹² It stated that “[d]ue to the extensive number of offices on the Discontinuance List the [list of discontinued post offices] will not be published in this *Postal Bulletin*.” PB22606 at 10. It provided a link to the list of discontinued post offices that are listed on *PostalPro*. Please explain whether the Postal Service has considered publishing the list of discontinued post offices and their office closing dates as an Appendix to the *Postal Bulletin* instead of as a link to separate website.¹³ If the Postal Service has not considered this, please explain why.

RESPONSE:

The Postal Service currently plans to publish the list referenced in this information request in a future edition of the *Postal Bulletin*.

¹² United States Postal Service, *Postal Bulletin* (PB 22606) September 8, 2022, at 10, available at <https://about.usps.com/postal-bulletin/2022/pb22606/pb22606.pdf> (PB22606).

¹³ The Postal Service's discontinuance regulations state, “If no appeal is filed, the official closing date of the office must be published in the *Postal Bulletin*....” 39 C.F.R. § 241.3(g)(2).